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UNCLAS SECTION 01 OF 02 BEIJING 006456

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SUBJECT: China/Central Asia - Weak Infrastructure and
Limited Economic Integration Hinders Development

REF: 06 Beijing 19030

Summary

¶1. (SBU) Transportation and logistics issues continue to hamper regional economic growth linking China and Central, West and South Asia. The widely hyped Horgos Cross Border trade area featured at last year's High-Level Forum on Regional Economic Cooperation in Urumqi is still under construction and may be years away from railway integration. China-Central Asia trade (Central Asian raw materials in return for Chinese finished manufactured goods) continues to grow at double-digit rates. End Summary.

Travel to Xinjiang

¶2. (SBU) Econoff traveled to Xinjiang Autonomous Region in early September to attend the High-Level Forum on Regional Economic Cooperation in Urumqi, the region's capital, and to meet with provincial officials about economic integration between Western China and Central Asia.

Infrastructure Challenges Hinder Central Asian Trade

¶3. (SBU) Miao Gengshu, Chairman of the China International Investment Promotion Council, emphasized the need to focus on transportation and logistics linking China to Central, West and South Asia at the annual Urumqi-based High-Level Forum on Regional Economic Integration. He noted that Eurasian land

bridge shipments spend on average thirty to fifty percent of transit time held up in customs processing. Director Irmatov of the Uzbekistan Foreign Investment Information Security and Promotion Agency commented in his speech that construction of a 270 km road from Andijon in Kazakhstan through Osh to Kashgar in China would greatly enhance bilateral trade and avoid a lengthy detour.

¶4. (SBU) Xing Guangcheng, Director of the Chinese Academy of Social Sciences' Institute of Russian, East European and Central Asian Studies, noted during a meeting in Beijing that barter trade between China and Kazakhstan still has not been completely monetized. Other hindrances to greater economic integration include: Kazakhstan's investment climate; Kazakh laws and regulations that obstruct Chinese companies; and the relatively low level of investment.

Horgos Land Port Still Under Development

¶5. (SBU) At this year's High-Level Forum there was little mention of the Kazakstan-Horgos International Development Zone, which was so widely hyped at last year's forum. According to a Chinese Academy of Social Science researcher, the railway line on the China side won't be completed until 2009 and it may take another five years to connect to Kazakstan. The project involves construction of a "free-trade zone" on both sides of the China-Kazakhstan border in

BEIJING 00006456 002 OF 002

addition to border processing agreements. According to the Xinjiang National Development and Reform Commission (NDRC) the facility is still being built and they hope it will be completed by the end of the year. (Note: the Horgos land crossing is approximately 8 hours by road from Urumqi, the capital of Xinjiang Autonomous Region. End Note.)

And yet . . . Lopsided Trade Continues to Grow

¶6. (SBU) Trade between China and Central Asia continues to grow at double digit rates, though growth slowed to 37 percent in 2006, down from 48 percent the previous year. China's trade balance with the region shifted from deficit to surplus in 2003, and grew 95 percent in 2006 to USD 3.1 billion. The majority of the surplus is attributable to rapidly expanding exports to Kazakhstan and Kyrgyzstan (primarily manufactured goods). Total Chinese trade with Central Asia (Kazakhstan, Kyrgyzstan, Turkmenistan, and Uzbekistan) accounted for 0.7 percent of China's total 2006 global trade.

While Criticism is Muted, Turkey Expresses Concern

¶7. (SBU) Kazakhstan Deputy Director of the Chamber of Industry and Commerce Biyaluofu hinted at the raw materials for manufactured goods dynamic but focused on Kazakhstan's post industrial policy shifting from energy-intensive production to investment in processing and services. He noted potential Chinese investment in petrochemicals, oil machinery, food, textiles, transport/logistics, metallurgy, building materials and tourism - an electrode plant in Pavlodar, Kazakhstan was the only example cited.

¶8. (SBU) The only potentially disparaging comments among the speakers came from Ender Oncu, Turkey's Head of

Department, UnderSecretariat of Foreign Trade. He specifically mentioned that China is Turkey's 2nd largest source of trade deficit. (Note: He was also the most outspoken last year regarding the lopsided trading relationship. See reftel. End note.) He concluded by saying that Turkey and China had agreed on concluding a "Strategic Partnership Agreement" and a comprehensive "Market Promotion Program" to address sustainable and healthy economic relations.

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